

Message Text

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INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00
LAB-04 SIL-01 OMB-01 USIA-06 NSC-05 SS-15 /076 W
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R 201855Z JUL 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0975
INFO ALL EC CAPITALS

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 08450

USEEC

PARIS FOR OECD

E.O.11652:GDS
TAGS: EFIN, EEC
SUBJECT: EC MONETARY COMMITTEE MEETING

REFS: (A) BRUSSELS 06299; (B) EC BRUSSELS 3872

1. SUMMARY: EC MONETARY COMMITTEE MEETING FOCUSED ON THE ECONOMIC SITUATION IN THE UK, DENMARK, AND THE FRG, AND BRIEFLY REVIEWED POSITIONS ON IMF ISSUES. UK REP EMPHASIZED THE TEMPORARY NATURE OF RECENT BALANCE OF PAYMENTS STRENGTH IN JUSTIFYING UK DECISION TO RESIST APPRECIATION OF STERLING. DANISH EXPRESSED CALM OVER EXTERNAL BALANCE, BUT GLOOM OVER INTERNAL GROWTH PROSPECTS. GERMANS ADMITTED UNCERTAINTIES OVER GROWTH PROSPECTS CITING STATISTICAL DIFFICULTIES, AND REFERRED TO POSSIBILITY OF FURTHER STIMULUS LATER ON. COMMITTEE WAS CALM ABOUT RECENT WEAKNESS OF DOLLAR, ALTHOUGH FRENCH REGISTERED COMPLAINT. NO NEW POSITIONS ON IMF ISSUES WERE REVEALED. END SUMMARY

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2. SOURCES HERE HAVE PROVIDED CONFIDENTIAL BRIEFINGS ON JULY 7 EC MONETARY COMMITTEE MEETING. WE HAVE ALSO OBTAINED COPIES OF COMMISSION'S MEMORANDUM TO COMMITTEE ON IMF QUOTA EXERCISE, BEING POUCHED TO EUR/RPE - GELBARD AND TREASURY/OASIA - SYVRUD. POSSESSION OF THESE DOCUMENTS SHOULD NOT BE REVEALED.

3. TOUR D'HORIZON BEGAN WITH DISCUSSION OF UK SITUATION. THE PRESIDENT (POEHL) NOTED RECENT UK RESERVE GAINS AND ASKED FOR BRITISH COMMENTS ON THEIR EXCHANGE-RATE STRATEGY. POEHL NOTED IN PASSING THAT UK, IN RESISTING STERLING APPRECIATION, HAD BEEN VIRTUALLY ALONE IN GIVING SIGNIFICANT SUPPORT TO WEAKENING DOLLAR. UK REP ARGUED THAT STRENGTH OF STERLING HAD NOT RESULTED PRIMARILY FROM A BETTER UNDERLYING POSITION - WHICH WAS IMPROVING ONLY SLOWLY - BUT FROM CAPITAL MOVEMENTS WHICH WERE PROBABLY NOT SUSTAINABLE. INCREASE IN RESERVES WAS NOT "EARNED", BUT RATHER REPRESENTED A SHIFT IN STRUCTURE OF CAPITAL ACCOUNT. THEREFORE, MORE EVIDENCE OF FUNDAMENTAL IMPROVEMENT WAS NEEDED BEFORE ALTERING THE UK TARGET ZONE FOR ITS RATE. (COMMITTEE MEMBERS COMMENTED THAT THEY WERE GLAD TO SEE UK DEVOTION TO RATE STABILITY, BUT WONDERED WHETHER IMPROVED BRITISH POSITION DID NOT WARRANT ALLOWING SOME APPRECIATION.) IN RESPONSE TO QUESTIONS, UK REP SUGGESTED THAT BRITISH WOULD PROBABLY GO AHEAD WITH AUGUST DRAWING ON IMF STANDBY, BUT WOULD THEN RECONSIDER NEED FOR FURTHER DRAWINGS. HE ALSO NOTED SOME LIMITED SALES OF FOREIGN CURRENCY BONDS (AMOUNT UNSPECIFIED) BUT BRITISH WERE NOT HAVING GREAT SUCCESS IN GETTING FOREIGN AUTHORITIES TO REDUCE OFFICIAL STERLING BALANCES.

4. TURNING TO INTERNAL DEVELOPMENTS, UK REPS PRETTY MUCH CONFIDENTIAL

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ACCEPTED THAT THERE WOULD BE NO STAGE III CEILING FIGURE, BUT HOPED TO OBTAIN A KIND OF LOOSE AGREED FRAMEWORK FOR DETERMINING WAGE INCREASES. THEY STILL HOPED TO MAINTAIN PRINCIPLE OF 12 MONTH INTERVAL IN WAGE SETTLEMENTS, BELIEVING THAT SUBSTANTIALLY REDUCED INFLATION RATE BY YEAR-END WOULD PROVIDE STRONG ARGUMENT FOR RESTRAINT IN WAGE SETTLEMENTS THEREAFTER. WITH PREVIOUS DEPRECIATION NOW HAVING WORKED ITS WAY THROUGH THE SYSTEM, PERIOD OF RATE STABILITY SHOULD RESULT IN DECELERATION OF INFLATION TO BELOW 10 PERCENT BY YEAR-END. FINALLY, DESPITE WEAK GROWTH PROSPECTS THERE WAS NO SUGGESTION OF REFLATIONARY MEASURES.

5. DANISH REP NOTED THAT INTERNAL DEMAND IN DENMARK SEEMED VERY WEAK, WHILE, WITH UK AND SWEDEN AS MAJOR EXPORT MARKETS, NOT MUCH COULD BE EXPECTED FROM EXTERNAL DEMAND. THEREFORE PROSPECTS FOR REDUCING UNEMPLOYMENT WERE NOT GOOD. WITH EXCHANGE RATE IN MIDDLE OF SNAKE, GOOD PROSPECTS FOR REDUCING CURRENT ACCOUNT DEFICIT, AND NO PROBLEMS IN FINANCING EXISTING DEFICIT, DANES WERE RELAXED ON EXTERNAL BALANCE. (ONLY CONCERN WAS ON POSSIBLE SWEDISH REACTION TO SWEDISH DEFICITS. SWEDES

WERE EVIDENCING WORRY ABOUT GETTING INTO DEFICIT POSITION, BUT "WILL JUST HAVE TO GET USED TO IT.") DANES REPORTED PREPARATION OF A DOMESTIC STIMULUS PACKAGE STILL AT AN EARLY STAGE.

6. FRG REPRESENTATIVES TURNED ASIDE GENTLEMANLY QUERIES ON GERMAN GROWTH PROSPECTS, CITING LARGE UNCERTAINTIES, IN PART STEMING FROM SEVERE STATISTICAL PROBLEMS. CLAIMED FEDERAL GOVERNMENT STILL FORECAST 4 1/2 PERCENT GROWTH OUTTURN IN 1977, WHILE BUNDESBANK FORECAST WAS AT 4 PERCENT. (COMMISSION FORECAST IS NOW 3.8 PERCENT). FRG REPS STILL HOPED FOR CONSUMPTION - LED GROWTH IN SECOND HALF, WITH MEDIUM-TERM PUBLIC

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EXPENDITURE PROGRAM CONTRIBUTING DM 3 - 3 1/2 BILLION THIS YEAR, AND SUGGESTED POSSIBILITY OF FURTHER STIMULUS BEING ADDED LATER ON.

7. IN RESPONSE TO COMMISSION QUESTION, FRENCH REP SAID EMPHATICALLY THERE WAS NO INTENTION OF REJOINING SNAKE. FRENCH EXPRESSED UNHAPPINESS ABOUT RECENT EXCHANGE-RATE DEVELOPMENTS, SINCE THEY WOULD PREFER TO MAINTAIN STABLE RATES WITH BOTH DM AND DOLLAR. WITH THESE CURRENCIES MOVING APART FRENCH AIM HAS BEEN TO TAKE MIDDLE COURSE, BUT WOULD PREFER TO INTERVENE AS LITTLE AS POSSIBLE. ACCORDING TO OUR SOURCES HERE, NO FURTHER COMPLAINTS WERE EXPRESSED ON EXCHANGE RATES.

8. HURRIED SURVEY REVEALED NO CHANGES FROM POSITIONS TAKEN AT MOST RECENT DISCUSSION OF IMF MATTERS (REF B). WITH EXCEPTION OF ITALIANS, THERE WAS STILL NO SUPPORT OF

A NEW SDR ALLOCATION, WITH GENERAL PREFERENCE TO STRENGTHEN SDR BEFORE EXPANDING VOLUME. UK REP EXPRESSED DISAPPOINTMENT OVER PROSPECTIVE SIZE OF SPECIAL FACILITY, ARGUING THAT THIS SHOULD HAVE EFFECT ON SIZE OF QUOTA INCREASE. BELGIANS ARGUED NO LINK WITH QUOTAS, BUT WITH IMPLEMENTATION OF OECD FSF. GENERAL IMPRESSION LEFT BY THIS DISCUSSION, ACCORDING TO ONE SOURCE HERE, WAS LACK CONFIDENTIAL

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OF ANY NEW THINKING ON THESE ISSUES, AND INDEED APATHY. POEHL URGED COMMITTEE MEMBERS TO RETHINK THESE ISSUES OVER HOLIDAY PERIOD.

9. MONETARY COMMITTEE WILL MEET TO DISCUSS IMF ISSUES AGAIN SEPTEMBER 9, PROBABLY IN BERLIN. HINTON

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